



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: January 8, 2003 REPORT NO. 03-003

ATTENTION: Honorable Mayor and City Council
Agenda of January 14, 2003

SUBJECT: Guidelines for Implementation of the HUD Section 108 Loan Program

SUMMARY

Issue: Should the City Council adopt the proposed HUD Section 108 guidelines?

Manager's Recommendation: Adopt the proposed guidelines.

Other Recommendations: None

Fiscal Impact: Approval of the proposed policies will affect the amount of Section 108 debt the City allows itself to enter into, which assets it mortgages for that debt, and the amount of future CDBG it pledges towards that debt.

BACKGROUND

The HUD Section 108 Loan Guarantee program, which is part of the Community Development Block Grant (CDBG) program, is one of the major public investment tools offered to local governments from the federal Department of Housing and Urban Development. It allows cities to transform relatively small portions of their CDBG funds into federally guaranteed loans large enough to stimulate and/or pay for major physical and economic revitalization projects. The program allows the City to borrow money for up to 20 years. It also provides favorable interest rates, just slightly above comparable Treasury bill rates, because of the federal government's guarantee and allows flexibility in structuring repayments. Project eligibility is closely related to CDBG project eligibility.

Section 108 funds have been used to support important development projects which have enabled the City to carry out many redevelopment, revitalization, and neighborhood improvement plans. The City has used Section 108 funds to support economic development projects such as the

Barrio Logan Mercado, an industrial park and a commercial center in SEDC's redevelopment project areas, and the Regional Transportation Center (RTC) in City Heights. The Section 108 mechanism has been used frequently by the City to develop public and neighborhood facilities. Section 108 loans have been used to support the Urban Village Library/Park and to build police and fire stations. The program has also been used to purchase two properties for use as homeless facilities. Financial support for three branch libraries and a community health clinic has been approved, and pending loans would help finance public improvements in Council District 3 and a senior citizen center in District 4.

Attachment I details the city's portfolio of active and pending loans. It should be noted that the Regional Transportation Center loan is the only active loan that is being repaid by a third party, i.e. a developer. All others are being repaid by the City, mostly with CDBG funds, although tax increment revenue is expected to be utilized in a few cases.

As shown in the summary in Attachment I, current (FY 03) Section 108 loan debt is \$25.9 million; if all loans that are pending (Categories II - V on Attachment I) were to be funded, the debt would be \$58.1 million. The City's Section 108 debt is reduced each year by annual principal payments on existing loans and increased by the addition of new loans. FY 03 payments total \$3.5 million; with the addition of all pending loans (including those under discussion), the annual payment would rise to over \$6 million.

DISCUSSION

For most Section 108 loans, the asset acquired and/or developed by the loan can be pledged as collateral. In those instances, there is no collateral issue. However, the Manager has recently been considering loans for which the asset itself cannot satisfy HUD's collateral requirement. Guidelines regarding which City assets can be used as collateral for the Section 108 loans are therefore needed. In addition to collateral issues, the Manager has been considering the amount of outstanding 108 debt that the City should carry and the need for an annual process for consideration of new 108 loans. The Manager's recommendations regarding the establishment of guidelines for these three issues are contained in Attachment II, along with discussion of each issue. Attachment III details the loans for which collateral must be established and how the proposed collateral guidelines would be applied to each. The Manager will be bringing specific collateral recommendations for these loans to the Council after the guidelines are approved.

The matter of policies is being brought before the City Council at this time, in part, because the 108 loan program has become increasingly popular and the rate at which the City Council has approved loans has essentially doubled our cumulative 108 debt in the last two years.

ALTERNATIVES

1. Approve some but not all of the guidelines.
2. Revise the recommended guidelines
3. Do not approve any guidelines

Respectfully submitted,

Hank Cunningham, Director
Community and Economic Development

Will Griffith, Director
Real Estate Assets Department

Approved: Bruce Herring
Deputy City Manager

CUNNINGHAM/GRIFFITH

Attachments:

- [1. Section 108 Loan Portfolio](#)
- [2. Proposed Guidelines](#)
- [3. Loans Impacted by Collateral Guidelines](#)